**Robert W. Quinn, Jr.**
Federal Government Affairs
Vice President

Suite 1000
1120 20th Street NW
Washington DC 20036
202 457 3851
FAX 202 457 2545

March 5, 2002

**REDACTED FOR PUBLIC INSPECTION**

ELECTRONICALLY FILED

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: *Application by Verizon-New Jersey for Authorization To Provide In Region InterLATA Services In State Of New Jersey, Docket No. 01-347*

Dear Mr. Caton:

AT&T submits this *ex parte* letter and the attached supplemental declaration of Stephen Huels to supplement its *ex parte* response, filed March 1, 2002,[1] to the arguments on the issue of hot cut non-recurring costs ("NRCs") that Verizon advanced in its Reply Comments.

In its reply comments, Verizon included an illustrative table purporting to show that adding recurring loop costs and amortized hot cut non-recurring costs over a three and five-year period produced similar results for New York, Massachusetts, Pennsylvania and New Jersey. *See* Verizon Reply, Garzillo/Prosini Decl. ¶ 28. As explained in the Declaration of Richard J. Walsh,[2] however, combining recurring and non-recurring costs in this way provides little, if any, useful information about the viability of local entry. Moreover, as explained in the attached supplemental declaration of Stephen Huels, Verizon's illustrative tables are rendered even more irrelevant by Verizon's improper amortization assumptions. *See* Huels Supp. Decl. ¶ 2. Specifically, Verizon's assumption of three to five year amortization periods for non-recurring costs is unrealistic in a competitive market. *See id.* Based on AT&T's experience in competitive markets, the period during which a company will retain an average customer, and therefore must recover its up-front costs, is in the range of *** *** months, not the 36-60 month range implied by Verizon's illustrative table.

[1] *Ex Parte* Letter from Robert Quinn (AT&T) to William Caton (FCC), CC Docket No. 01-347 (filed March 1, 2002) ("*AT&T March 1 Letter*").

[2] AT&T March 1 Letter, Attachment 2.

Another obvious deficiency in Verizon's "analysis" is the implicit assumption that Verizon's rate structure is irrelevant to carriers' entry decisions. Where an entrant must pay substantial up-front costs, that entrant bears the risk of losing a significant portion of that investment if it loses the customer before the entrant is able to recover those up-front costs from that customer. By contrast, where an entrant is required to pay only small up-front costs to obtain a customer, the entrant stands to lose far less money if it loses the customer in a short time. All things being equal, therefore, potential entrants face greater risks when entering markets with high up-front costs than when entering markets with low up-front costs.[3] In New Jersey, Verizon's up-front hot cut costs alone currently are as much as 3000 percent higher than in other Verizon states. *See* AT&T Comments, Sczepanski Decl., Table 2. Thus, Verizon's hot cut rates plainly deter entry in New Jersey, as was confirmed by numerous commenters in this proceeding. *See, e.g.,* ASCENT Comments at 5; Cavalier Comments at 10; AT&T Comments at 14; AT&T Reply Comments at 8.

Even if the monthly costs in all states listed in Verizon's table were equal, and even if the rate structure had no impact on entry, Verizon's analysis still would be meaningless because it fails to account for differences in retail rates. For entry to be economically feasible, the difference between retail revenues and costs must allow efficient carriers to earn a sufficient margin to cover their operating and internal costs of entry. Among the states in Verizon's "illustrative" table, New Jersey has among the *lowest* residential retail revenues. Therefore, if Verizon's table is correct, and Verizon's New Jersey recurring rates are similar to those in other states, then that analysis also shows that entry is least likely to occur in New Jersey. In fact, numerous carriers find UNE-L entry in New Jersey to be a virtual economic impossibility. *See, e.g.*, ASCENT Comments at 5; Cavalier Comments at 10; AT&T Comments at 14; AT&T Reply Comments at 8.

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[3] *See, e.g., AT&T Communications,* 103 F.C.C.2d 277, ¶ 137 (1985) ("It is evident that nonrecurring charges can be used as an anticompetitive weapon . . . to discourage competitors"); Second Memorandum Opinion and Order on Reconsideration, *Expanded Interconnection with Local Telephone Company Facilities*, 8 FCC Rcd. 7341, ¶ 43 (1993) ("absent even-handed treatment, nonrecurring reconfiguration charges could constitute a serious barrier to competitive entry"). *See also* 47 C.F.R. § 51.507(e) ("[n]onrecurring charges . . . shall not permit an incumbent LEC to recover more than the total forward-looking economic cost of providing the applicable element").

For the foregoing reasons, Verizon's hot cut plus recurring loop rate comparison cannot be given any weight, and the inferences Verizon asks the Commission to draw from that comparison should be rejected.

Sincerely,

Robert W. Quinn Jr.

cc: Dorothy Attwood
Alexis Johns
Susan Pie
Deena Shetler
Joshua Swift
Ann Berkowitz (Verizon)

**Before the**
**Federal Communications Commission**
**Washington, DC 20554**

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|---|---|---|
| In the Matter of<br><br>Application of Verizon New Jersey, Inc., BellAtlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a/ Verizon Enterprise Solutions), Verizon Global Networks, Inc., and Verizon Select Services, Inc., for Authorization to Provide In-Region InterLata Services in New Jersey | )<br>)<br>)<br>)<br>)<br>)<br>)<br>) | CC Docket No. 01-347 |

**SUPPLEMENTAL DECLARATION OF STEPHEN G. HUELS**
**ON BEHALF OF AT&T CORP.**

## I. QUALIFICATIONS AND PURPOSE OF TESTIMONY.

1. My name is Stephen G. Huels. I am the same Stephen G. Huels who filed a declaration on behalf of AT&T with its initial comments. The purpose of my supplemental testimony is to explain that Verizon is wrong to assume that a three to five year amortization period is appropriate for determining whether Verizon's hot cut rates preclude UNE-loop based entry in New Jersey.

2. UNE-loop entry is economically feasible only if a company can recover its entry costs and make a reasonable return during the period that it can expect to retain a customer. In its reply comments, Verizon submitted an illustrative table purporting to show that the summing of recurring loop costs and amortized hot cut non-recurring costs over a three or five year period produced similar results for New York, Massachusetts, Pennsylvania and New Jersey. As explained in the Declaration of Richard J. Walsh, combining recurring and non-recurring costs in this way is improper and provides little, if any, useful information about the

viability of local entry. I note that in its reply comments, Verizon produced illustrative figures of what hot cut and other costs would be based on an assumption of a three to five year amortization period. Moreover, Verizon's illustrative tables are rendered even more useless by Verizon's improper amortization assumptions. In particular, Verizon's assumption of a three to five year amortization range for non-recurring costs is unrealistic in a competitive market. Based on AT&T's experience in competitive markets, the period during which a company will retain an average customer is much shorter. Indeed, AT&T's experience is that the appropriate retention period is a range of only *** *** months. As I noted in my initial Declaration, when Verizon's extremely high hot cut rates are analyzed against the actual period that customers are expected to be retained, Verizon's hot cut rates, if implemented, would significantly delay, if not altogether preclude, AT&T from entering New Jersey via UNE-L.

3. Verizon's attempt to raise non-recurring charges must be seen for what it is – an attempt to foreclose facilities-based competition. As Verizon knows full well, placing significant entry costs up-front – like Verizon's hot cut non-recurring charges – is the worst place to put costs because the result is the most inhibiting to competition.

I declare under penalty of perjury that the foregoing Declaration is true and correct.

Stephen G. Huels

Executed on: March 4, 2002

AT&T

**Robert W. Quinn, Jr.**
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Vice President

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Re: *Application by Verizon-New Jersey for Authorization To Provide In Region InterLATA Services In State Of New Jersey, Docket No. 01-347*

Dear Mr. Caton:

AT&T submits this *ex parte* letter to supplement its *ex parte* response, filed March 1, 2002,[1] on the issue of margin analysis that Verizon raised in its Reply Comments.

As explained by AT&T, it is inappropriate to include intraLATA toll revenues in a UNE-P margin analysis that is aimed at identifying the margins that are available to new local residential entrants. In all events, the issue is moot. Adding intraLATA toll revenues to the margin analysis on record in this proceeding would not change the fact that state-wide margins in New Jersey are still not sufficient to support local UNE-P entry. These conclusions were based on the fact that potential revenues from interLATA toll in New Jersey would increase margins by only *** ***. Thus, the margins available to new entrants in New Jersey still would be negative or miniscule in all UNE zones.

Sincerely,

Robert W. Quinn Jr.

[1] *Ex Parte* Letter from Robert Quinn (AT&T) to William Caton (FCC), CC Docket No. 01-347 (filed March 1, 2002) ("*AT&T March 1 Letter*").

cc: Dorothy Attwood
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